

COMPENSATION ANALYSIS

Determining the proper compensation for an employee is not a straightforward process.

Many different methods and theories abound, each promising, with the application of a formula or through the use of a survey, to produce a correct compensation “figure”. Practical experience with the process of determining compensation for employees belies this simple concept. Often, the best results are achieved through an amalgamation of several different methods of compensation analysis.

In many organizations, management unilaterally determines the pay to be offered to employees. This does not imply, however, that management has complete control in setting pay levels. There are three constraints on the ability of management to determine pay levels: the external labor market, internal equity, and the organizational hierarchy.

- Classical economics teaches that labor is like any other commodity or product, and therefore has a market. Within this market, the forces of supply and demand work to produce a “price” for different positions. For example, due to the heavy demand for truck drivers from the growing trucking industry, the number of available positions in this industry has increased. Since there are a relatively short supply of an available labor force with the corresponding knowledge, skills, and abilities able to fill these positions, the

“price” of a truck driver has also increased in recent years. This “price” is simply the hourly wage or the fixed salary that an organization must offer a person to fill the requisite position — the position’s compensation; simply, the external labor market must be considered when developing competitive and equitable compensation plans.

- The second constraint on management is the concept of internal equity. This concept refers to the principles that a position in one area of the organization should be offered the same level of compensation as that same position in another area of the same organization. Within a municipality, for example, given similar job tasks, an administrative assistant in the Mayor’s Office should have pay equity with a similarly situated administrative assistant in the Public Works Department. Ignoring internal equity concerns can lead to high turnover and low morale amount employees.
- The third constraint on management is the organizational hierarchy. In a hierarchical organization, it is vital that managers have a greater level of compensation than the subordinates they supervise. Ignoring issues related to organizational hierarchy can lead to poor management performance and reduced motivation among employees.

EXTERNAL LABOR MARKET

In developing compensation plans for county and municipal governments, salary survey instruments developed by the Institute are distributed to organizations that are either in the city’s local labor market or are comparable to the municipality or county under review. Factors used to determine comparability to other cities and counties include population ($\pm 25\%$) annual general fund budget, number of employees, and types of services offered to the public. All survey results are verified and standardized in format by Institute staff. In cases where only a range was reported for a specific position, the average of the high and low salary listings is used in the computations.